QUARTERLY COMMENTARY

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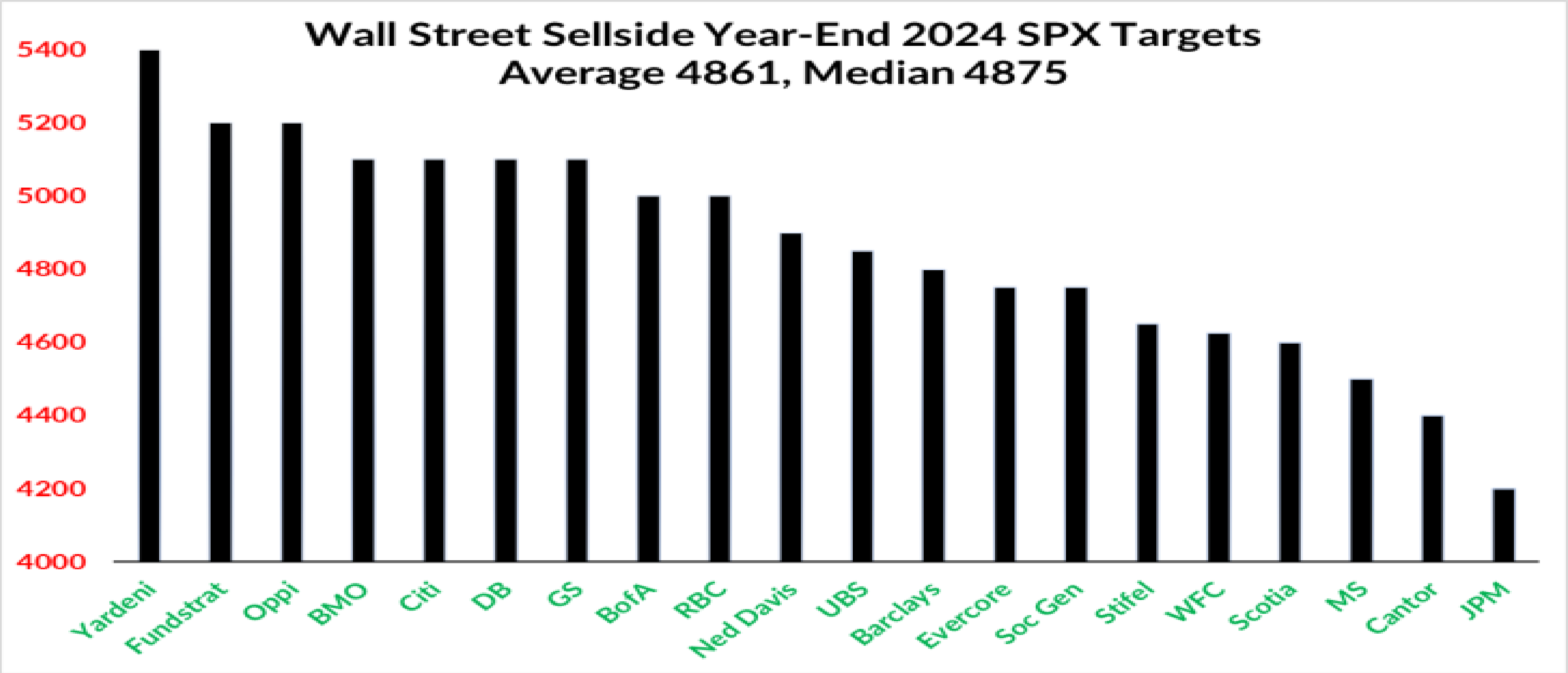
In With The New …

The beginning of every new year brings out the prognosticators who with great confidence inform us what they expect the markets will do over the next twelve months. It's really a mugs game – nobody can predict with any accuracy how the markets are going to perform. Nevertheless I want to provide you with my take on what will happen this year: the markets will continue to fluctuate (that's all I got - sorry to disappoint!). I attended a lunch seminar recently at which a highly regarded and very talented mutual fund portfolio manager presented. You know that I have a value orientation when purchasing investments for my clients – I don't like overpaying. So I asked him what his approach is to buying companies for his funds when it comes to valuations. His answer was that if he's buying great companies with high returns on invested capital (ROIC is a calculation used to determine how well a company allocates its capital to profitable projects or investments) and he holds them for the long term (i.e. 10 years or more) it doesn't really matter. And you know – he's right! Buying companies that are making the right investments to profitably grow their business is a time-tested formula for success. Besides, it's impossible to time the market - the problem is most investors don't think in terms of holding their stocks or funds for decades – or even a few years – many watch them on a daily (or even hourly) basis! (You know who you are!). Serious long-term investors know that it doesn't matter so much when you purchase – what is more consequential is when you sell. And of course the time period you hold must be matched with your required cash flow – if you need some capital for an upcoming purchase of a new car, or a home renovation – you better not be investing that money in the markets because anything can happen in the short term – even if you're invested in great companies or funds.

Currently the S&P 500 is at 4783. Here are some of the projections from Wall St. analysts:



Financial Samurai

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One thing I do know is that 2024 will be the transition year into a new cycle. And the new environment will look a lot different than what has preceded it. Quantitative easing and the zero rates of the past are long gone and a more normal interest rate environment is here. In the US there is still some persistant wage inflation - in previous labour contracts the norm was a 2 to 2.5% annual increase in wages; new agreements call for a 5% bump. That is not within the Fed's comfort zone and yet Mr. Market is pricing in <u>six</u> rate cuts this year – that big a drop could reignite inflation which would not be good. Is it possible a very difficult to achieve soft landing does <u>not</u> happen like the market is expecting? Over the past 70 years and 14 tightening cycles, 12 recessions were a result and only 2 soft landings were engineered. And those two situations were very different than this time around - they were relatively quick moves up and down in rates – not the huge and drawn-out affair we've recently experienced. We will know soon enough what the resolution will be. I don't want to come across as negative – just objective. It's important to be ready for any scenario.

It's interesting to note that each time a certain group of US companies becomes so dominant that people think of them as being the only stocks worth owning, it generally signaled that the next big investment opportunities lay elsewhere. Could it be that the Magnificent 7 high tech stocks that are so loved will become tomorrow's has-beens? That idea sounds almost impossible since we are so dependent on technology today. These mega trends take years to develop but of course nothing lasts forever. Periods of significant outperformance tend to be followed by periods of significant underperformance which is why diversification is the key to risk management. If indeed higher interest rates are here to stay, the source of investment returns will be from strong companies growing their profits – not multiple expansion due to low rates. Growth companies with increasing productivity and growing cash flows and strong balance sheets will benefit and investors will be rewarded. It's the lower quality "zombie" companies that will suffer – those that depended on low rates and have a lot of debt and little growth – companies that stayed on life support and were dependent on zero interest rates – the lowest rates ever in order to survive. There are always places to invest and right now I see good opportunities in small cap and value stocks as well as companies that benefit from higher inflation.

As always if you have any questions or are interested in a particular investment and you would like me to take a look at it for you please don't hesitate to call. In the meantime, stay warm!

Regards,

Richard